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SUBJECT: CAN ITALY'S ETERNAL "SOUTHERN QUESTION" BE SOLVED?

REF: A. A) 08 NAPLES 37, B) 08 NAPLES 73, C) 08 NAPLES 79, D) 08 NAPLES 97,  
[1](#)B. E) ROME 395

NAPLES 00000053 001.2 OF 004

Sensitive but unclassified -- handle accordingly.

[1](#)1. (SBU) Summary: The economy of southern Italy has been in a sad state for over a decade, with almost zero growth and chronic unemployment. The worldwide economic crisis does not bode well for a region where 22.5 percent of the population lives below the poverty line. Only one-half of one percent of all foreign direct investment in Italy is in the South, which hosts 37 percent of the country's population. The crisis resulted in a drop of almost 20 percent in exports from southern Italy in the last quarter of 2008, and observers have warned that Mafia loan sharking is on the rise as a response to the credit crunch. Enormous central and municipal government debt make it difficult for policy makers to address the gap between the South and the wealthier Center-North. The outlook for narrowing the divide is not favorable in the short term, and only possible in the long-term if Italy finds the political will to tackle -- with the proper resources -- organized crime, corruption, wastefulness, inadequate infrastructure, and cultural attitudes that foster clannish disdain for government and rule of law. There has been a positive response to Mission programs, such as the Partnership for Growth, public outreach, the promotion of private equity and business angels, and the Department of Commerce's Partnership for Entrepreneurial Growth. End summary.

[1](#)2. (U) Even before Italy's unification, an economic divide existed between the country's more industrialized North and the more rural South. Some experts (and many southerners) believe the disparity became more pronounced after unification, citing the Savoy royalty's pursuit of industrialization and modernization at the alleged expense of the former Kingdom of the Two Sicilies. Whatever the historical reasons, the gap has not narrowed, even following the formation of the European Community/Union. Italy's poorest regions are all in the South, where per capita income and net wealth average about fifty to sixty percent that of the North.

[1](#)3. (U) Statistics tell much of the story:

-- Southern Italy hosts 37 percent of the country's population

but only produces 24 percent of its GDP. The trend has not been positive: between 2001 and 2007, the GDP of the southern regions grew by only 5.5 percent, while that of the center-north regions grew by 8.8 percent. Based on 2005 statistics, southern Italy's GDP per capita was only 70 percent that of the European Union as a whole, while the Center-North's was 124 percent that of the EU average. Southern levels of consumption, production and income are all about three-fifths of national averages.

-- Over a quarter of the population lives below the poverty line in two regions of the South: Sicily, with 27.6 percent, and Basilicata with 26.3 percent, have the highest poverty rates in the country. The overall poverty rate, according to the latest GOI statistics is 22.5 percent in the South, as compared to 5.8 percent in the Center-North.

-- According to official GOI statistics, Sicily, Campania and Calabria led the country in unemployment in 2008, with respective rates of 14, 13 and 12.6 percent. The overall unemployment rate in the Mezzogiorno was 12 percent. The unemployment rate for young people (18-35) has been estimated at over 20 percent.

-- Large businesses are rare in the Mezzogiorno, where nearly 90 percent of employees work at firms with fewer than nine employees, and fully 99 percent work at companies with fewer than 50 employees.

-- Foreign direct investment (FDI) is also scarce. In 2006, there were 7,094 foreign companies operating in Italy; only 318

NAPLES 00000053 002.2 OF 004

of those, or 4.5 percent of the total, were in southern Italy. In terms of monetary value, southern Italy accounts for only one-half of one percent of all FDI in the country. This includes the country's second-most populous region, Campania, (which hosts a fairly large aerospace industry) with only 0.16 percent of FDI in Italy; Sicily, the fourth-most populous region (and one with large natural gas deposits), with 0.02 percent; and Basilicata, which holds Europe's largest underground oil reserves, with 0.16 percent.

-- Despite an abundance of universities and research centers, innovation is generally lacking; in this decade, southern Italy has produced on average 5.8 patents per million inhabitants, as compared to 60 patents per million inhabitants for Italy as a whole.

-- Many of our interlocutors point to a brain drain as an important component of the vicious cycle of poverty. As university graduates and professionals find it increasingly difficult to find employment, they leave the South for greener pastures in northern Italy or abroad, thus depriving their home regions of well-educated and highly skilled labor. From 2003 to 2007, Campania and Calabria led Italy in emigration, losing a yearly average of four persons per thousand inhabitants.

14. (U) Statistics cannot, of course, tell the whole story. For instance, the true unemployment rate in the South is difficult to gauge because many people work in the underground economy or are obliged to take a series of temporary jobs as employers try to avoid paying employee benefits required by Italian labor

laws. It is clear that there are high levels of underemployment; countless people would like to work full-time but are able to find only part-time jobs. Numerous interlocutors have also pointed to a widespread bias against women in the workplace that effectively locks the majority of them out of productive employment.

15. (U) Nor do official statistics reflect the immensity of illegal economic activity in the South. The spokesman of the anti-Mafia NGO "AmmazzateciTutti" told us the illegal economy in Calabria is eight times larger than the legal one. According to the research institute EURISPES, organized crime accounts for about nine percent of Italy's GDP; a business association report estimated that the various Mafias have some 20,000 employees. The 'Ndrangheta crime syndicate is undoubtedly the country's largest single enterprise, with an estimated 36 billion euros in revenue in 2007. Another think tank estimates that organized crime represents a loss of 2.5 percent in the South's economic growth. Prices for most goods and services in southern Italy are anywhere between two and five percent higher than what they would be in the absence of organized crime. Unlike legal enterprises, organized crime does not generate sustainable growth or much trickle-down wealth, and does not, of course, pay taxes. In a statement that could apply equally to Campania and Sicily, Nicola Gratteri, a prominent Calabria-based anti-Mafia prosecutor, recently wrote, "The 'Ndrangheta clans get richer and richer while Calabria remains stuck at the bottom of the income and employment indicators, demonstrating that the Mafias do not produce wealth, but condemn the territory where they operate to under-development and degradation."

16. (U) It is also wrong to view the South as homogeneous. Molise, the most prosperous region in our consular district, has a surprisingly diverse economy for a small region, and is hardly touched by organized crime; Apulia has the most industry in the Mezzogiorno; and Basilicata, as noted above, has substantial oil reserves. However, income distribution in Apulia is not geographically equitable; the province of Taranto (an important port and home to a major iron foundry and oil refinery) is considerably wealthier than the rest of the region. Basilicata has virtually no industry outside of the Val D'Agri oil fields and a FIAT factory.

Why the Gap Is So Hard to Close

NAPLES 0000053 003.2 OF 004

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17. (U) The pervasiveness of organized crime in Campania, Calabria and Sicily is the most obvious reason for the historical and current backwardness of the economy (see ref A for a detailed treatment of organized crime's overall effect on the southern economy). The crime syndicates force businesses to raise their prices in order to pay extortion; they engender corruption; they inhibit small enterprises from growing; and they create conditions that discourage investors. Although organized crime is undoubtedly the main factor in the South's underdevelopment, other reasons such as bad government and cultural factors have played a role. During the 1950s, the GOI's regional policy ("Cassa per il Mezzogiorno") was set up to help raise the living standards in the South. The Cassa aimed to do this in two ways: by land reforms creating 120,000 new small farms, and through the "Growth Pole Strategy" whereby 60 percent of all government investment would go to the South, thus boosting the southern economy by attracting new capital,

stimulating local firms, and providing employment. As a result the South became increasingly subsidized and dependent, incapable of generating growth itself, and much of the funds wound up in the hands of organized crime and corrupt politicians. The policy also led to disastrous ideas such as the construction of a major steel mill in the Naples beachfront neighborhood of Bagnoli; today, eighteen years after its closure, the site's hulking remains stand as an almost irremovable eyesore atop prime real estate. Some scholars (notably American sociologist Edward C. Banfield, who wrote "The Moral Basis of a Backward Society, a Study of a Remote Southern Village") attribute the Mezzogiorno's economic misery in part to its population's amoral familism: like other southern European regions, it suffers from the inability to conceive the modern concept of common good beyond direct tribal-like family interests (see also ref B).

#### Current Trends Not Positive

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18. (U) In a January 2009 report on the state of the economy in the South, the Italian Confederation of Industrialists (Confindustria) stated that the Mezzogiorno "remains on the margins of the oscillations of the business cycle, precisely because it is poorly integrated into the global economy." Indeed, conditions have barely changed in the South; even during Italy's boom years, growth in the South remained sluggish. However, it would be wrong to assume from this that southern Italy has not been affected by the global financial crisis. Exports are down significantly: the GOI's Statistics Institute (ISTAT) reported a drop of almost 20 percent in exports in the South in the fourth quarter of 2008 as compared to the same period in 2007, in contrast to a seven percent reduction for Italy as a whole. Campania's exports fell 14 percent, Sicily's by 24 percent, and Basilicata's by 43.5 percent. Two large FIAT automotive plants with thousands of employees, one near Naples and one in Melfi, Basilicata, were temporarily shut down for several weeks in the autumn and winter of 2008 (the Melfi plant is now back in full operation, while the Naples facility remains closed indefinitely). And some parts of the South that rely heavily on tourism for income, such as Naples and Sicily, have seen huge drops in the numbers of visitors (ref D). In any case, the aforementioned Confindustria report asserted that, "The potential for tourism in the South remains broadly unrealized." Only about fourteen percent of all foreign visitors to Italy venture into the South. Judicial authorities and organized crime observers have noted that the credit crisis has allowed mob loan sharking to rise throughout the country.

#### Addressing the Southern Question

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19. (U) The global financial crisis, coupled with the GOI's onerous 1.708 trillion euro debt, make it virtually impossible for the government to address the southern problem now. Economists expect Italy's economy to shrink by 3.7 percent this

NAPLES 0000053 004.2 OF 004

year, a prediction that does not bode well for narrowing the North-South divide. And the central government is not the only public entity with burdensome debt. Southern municipalities are also running huge deficits; in 2006, Taranto was forced to declare bankruptcy; Naples has a debt of 800 million euros on its books; and Sicily's second city, Catania, is running a budget deficit of 360 million euros. Smaller municipalities also have unsustainable debt burdens. A decrease in tax

revenues in 2009, due to the economic crisis, means even less money will be available for debt service and for public services.

¶10. (SBU) Nonetheless, throwing money at the problem has consistently failed to narrow the North-South gap. For the period 2007-2013, the South has at its disposal 110 billion euros in EU structural funds for economic development projects. But the previous tranche of EU structural funds failed to produce any significant results. Unless the money is administered in a well-planned, efficient, accountable and transparent manner, it will not be effective. As noted in ref C, southern Italy is the only region on which the EU has showered development money but where economic growth continues to lag. And based on conversations with numerous southern interlocutors, the EU does not seem to have vigorously enforced accountability for the funds. Nonetheless, infrastructure and environmental clean-up projects would certainly make southern regions more attractive to investment.

¶11. (U) The U.S. Mission has worked to assist in some areas where the U.S. experience might be transferrable. For instance, the Mission's Partnership for Growth initiative has successfully brought together researchers and financiers in an effort to spur innovation. ConGen Naples has identified a number of entrepreneurs who are willing to form a business angels group for the South; we will accompany them to the United States in June so they can hear ideas from American business angel groups. In April of this year, post organized a conference in Vibo Valentia, Calabria on promoting tourism in the South, that included suggestions for ways for the Mezzogiorno to brand itself and explanations of what American hotel chains' and tourists' expectectations when they decide where to go next. Post is also implementing, in collaboration with the Department of Commerce, the Partnership for Entrepreneurial Growth: a core group of entrepreneurs and innovators is working with us to develop a transparent, efficient template to generate growth in the South. Our public outreach has included numerous conferences on commercializing innovation, a conference on corporate responsibility and a series of speeches by the Consul General on shared values and rule of law. We note that U.S. firms present in southern Italy are streamlining their manufacturing processes to reduce costs and become more competitive; it is hoped that this technique will set an example for the business associations to encourage their members to implement similar restructuring. A Naples-based economist, Mario Sorrentino, tells us that the crisis will serve the Darwinian function of weeding out inefficient businesses that do not restructure, and that technology and alternative energy firms are likely to become more competitive.

¶12. (SBU) In the end, Italians must find their own way to resolve the southern question. In our view, the political will to combat organized crime with the proper resources is still lacking, as is the equally important public will to embrace a civil society. Vigorously attacking corruption and enforcing greater political accountability are also obvious components to an overall strategy, but so is instilling a greater sense of responsibility among businesses, civil servants and the public. Improving infrastructure and law enforcement is one thing; changing attitudes is a bigger and longer-term challenge. Given the current economic crisis, any narrowing of the North-South gap is unlikely in the near future. But unless Italy mounts a serious, principled, long-term strategy for the South, the divide will continue to split the country into two unequal portions, with the southern segment acting as a damper on growth for the country as a whole.

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